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Annual Report 1966
American Hospital Supply Corporation

MAY - 1 1967

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1966 in Brief:	1966	1965	% Incr.
Net sales	\$230,712,000	\$201,071,000	15
Earnings before Federal Income Taxes	24,355,000	20,194,000	21
Net earnings	12,480,000	10,639,000	17
Net earnings as a percent of net sales	5.4%	5.3%	—
Net earnings per share	1.34	1.14	18
Number of shares outstanding	9,297,000	9,295,000	—
Dividends paid	3,965,000	3,502,000	13
Dividends paid per share	0.4250	0.3625	17

Stockholders' Meeting:

The annual meeting of stockholders will be in the auditorium of Evanston Township High School, 1600 Dodge Avenue, Evanston, Illinois at 10 a.m. on Saturday, May 6, 1967. Stockholders, employees, suppliers, and customers are cordially invited. Notice of the meeting and proxy details are mailed to stockholders with their Annual Reports. Owners unable to attend the meeting are urged to sign and return their proxies promptly.

To Our Stockholders:



Chairman F. G. McGaw, President H. K. DeWitt

In virtually every respect, 1966 was a record year for American Hospital Supply Corporation. Net earnings were \$12,479,594 and exceeded 1965 earnings of \$10,638,550 by 17 per cent. Earnings per share last year were \$1.34, an increase of 18 per cent over \$1.14 earned in 1965. Sales in 1966 totaled \$230,711,935, and were 15 per cent higher than prior year sales of \$201,071,444.

Dividends

Last year was the eleventh consecutive year in which increased dividends per share were paid to stockholders. In its November meeting, the Board of Directors voted to increase the annual rate of dividend from 40 to 50 cents per share. Stockholders received a total of \$3,965,214 in dividends during 1966, an increase of 13 per cent over 1965 payments of \$3,501,558. Return on investment rose to 16.4 per cent from 15.5 per cent in 1965.

Sales and earnings comment

The Corporation's favorable sales and earnings position throughout 1966 represents gains in every area of our business.

Hospital supplies (including equipment, furnishings, nursing home and dietary products) accounted for 51 per cent of all 1966 sales. The laboratory supply and equipment segment continued to flourish and accounted for 37 per cent of sales. Ethical pharmaceutical and related products were 7 per cent of sales. The remaining 5 per cent of sales includes school uniform, industrial supply and dental equipment sales. Share of market in all areas was maintained or expanded.

New products, new distribution methods, the entrance into new markets and an increase in the percentage of products of our own manufacture contributed to these results. More than 35 per cent of total net sales were attributable to products made by American. For the prior year, the figure was approximately 33 per cent.

Among new products produced or distributed last year were electronic patient monitoring systems (V. Mueller & Co.), a completely disposable tray set for spinal fluid taps (Pharmaseal), a catheter for exploring coronary damage (Edwards Laboratories), X-ray film (American Hospital Supply Division), a Cephalin Cholesterol test kit (Harleco), a urological irrigation and drainage system (Don Baxter/McGaw Laboratories), nursing home furniture (Institutional Industries, Inc.), a liniment

in aerosol form (Arnar-Stone Laboratories), a blood donor chair (Scientific Products) and Data-Cyte reagent cells for antibody detection and identification (Dade Reagents).

Two segments, while profitable, did not fully meet expectations. Both were in Latin America. International business on the whole, however, was up well over last year and, including Canada, accounted for about 14 per cent of 1966 sales.

Medicare

The first phases of Medicare went into operation on July 1, and the precise effects of the program on the hospital supply industry are not yet fully measurable. The difficulty in evaluating Medicare's impact comes mostly in trying to determine how much hospital care is being provided which would not have been provided if the program were not in existence.

Two possible effects in the second half of 1966 were these:

- (1) There was a third quarter lag in receivables. The delay may have been due to hospital adjustments as they established billing and payment systems in accordance with Medicare regulations. This problem eased considerably in the fourth quarter.
- (2) There was an increase in the percentage of hospital admissions of persons over 65. Average length of stay for this group also increased significantly—from 11.2 days in July of 1966 to 13.3 days in December. This may suggest that Medicare has encouraged persons over 65 to seek more hospital care. But we shall have to observe, for some time to come, all aspects of health care as they relate to this program before we can describe effects on our industry with any certainty.

Acquisitions

American's manufacturing capacity and market potential were broadened through two acquisitions in 1966. In March, the Corporation acquired all stock of Edwards Laboratories, Inc. This California-based firm is a leader in the design and manufacture of artificial heart valves and surgical catheters. The addition of Edwards Laboratories represents important new product possibilities.

Burma Latex Products, Inc., was acquired in December. The Talmadge, Ohio, company manufactures protective hand coverings primarily for the electronics industry.

These acquisitions were made through exchange of stock involving a total of 275,786 American shares. Managements of both firms were retained.

Source of sales dollar	Outgo of sales dollar	Outgo of earnings dollar
Our own products 35¢	Net profit 5¢	Stockholders 14¢
	Taxes and other 15¢	
	Employees 21¢	Plowback for growth 31¢
Products made by others 65¢	Suppliers 59¢	All taxes 55¢

About 1.4 per cent of total net sales for 1966 stemmed from companies acquired last year. The remaining 98.6 per cent was the result of internal growth.

Property and facilities

The Corporation's plants, properties and equipment had a gross book value of \$38,017,519 at the close of 1966. A new Eastern Area sales and distribution facility for the American Hospital Supply and Scientific Products divisions was completed in Edison, N.J. The million-dollar facility contains approximately 100,000 square feet of office and warehouse space. About 34,000 feet of office and warehouse space have been leased by the divisions in the Atlanta area.

At Irwindale, Calif., 100,000 feet of new warehouse space was added to Pharmaseal Laboratories. In addition, some 50,000 feet of new production facilities were added for the manufacture of disposable medical products. A production addition was begun at Pharmaseal's Johnson City, Tenn., plant and is more than half complete.

An expansion of the Santa Ana, Calif., facilities of Edwards Laboratories added 12,000 feet of office and production space. A \$1 million remodeling of the Don Baxter, Inc. facilities in Glendale, Calif., also was begun last year.

A 3.3 acre site was purchased in Fort Lauderdale, Fla., and construction of a production facility for V. Mueller Surgical Products now is under way.

A new plant for the production of intravenous solutions was completed in Ahmedabad, India. The facility, now in full operation, is owned by McGaw-Ravindra Laboratories, a newly formed licensee.

Personnel

At the close of last year 7,185 people were employed by the Corporation. This compares with 6,136 at the end of 1965. Payroll and fringe benefit expenditures for 1966 were \$46,938,814. A number of benefit plans were improved and expanded. Nearly 14,200 employees and dependents now are covered by company-sponsored health plans. Volume of company-sponsored life insurance in force exceeds \$70 million.

Management

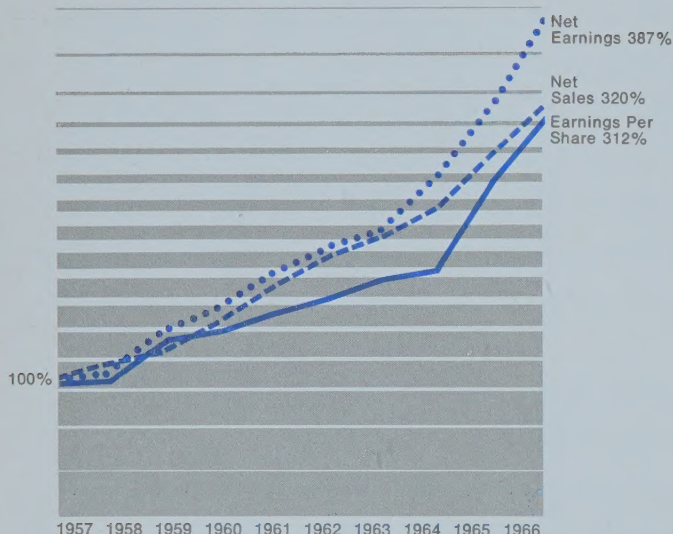
Management changes during 1966 included the election of Robert K. DiVall to treasurer of the Corporation. He succeeds Samuel H. Young who resigned as financial vice-president and secretary-treasurer in order to resume private law practice. Robert M.

Baker succeeded Mr. DiVall as controller. Robert C. Keck, a partner in the firm of Spray, Price, Hough and Cushman, was elected secretary.

Paul D. Scheele was promoted to president of Hartman-Leddon Company, Inc. William E. Van Dessel was promoted to president of Institutional Industries, Inc. Leonard A. Moritz, formerly financial vice-president of Oberman Manufacturing Co., was named president of Bruck's, Inc.

M. Lowell Edwards, president of Edwards Laboratories, and Burton R. Waldorf, president of Burma Latex, continue to head these acquired firms.

10 year growth since 1957



Current year

None of the trends which contributed to record results throughout the past year shows any sign of diminishing as far as we can see into 1967. Plans for the expansion of product lines, markets, personnel, systems and facilities are being undertaken in accord with near-term and long-range growth objectives.

A new Southwest Area sales and distribution center for the Scientific Products and American Hospital Supply divisions is under construction in the Dallas-Fort Worth area. The 117,000 foot warehouse and office facility will be expandable by 300 per cent. Additional new facilities for these groups will be constructed in Detroit and Kansas City. Canadian Laboratory Supplies Ltd. (Canlab) will add 42,500 square feet to its Toronto offices and warehouse. Construction of additional production facilities at Pharmaseal Laboratories (Irwindale, Calif.) and McGaw Laboratories (Milledgeville, Ga.) began earlier this year. Final details of a large Western Area building complex for the Corporation's subsidiaries are in preparation and an announcement will be made soon.

Public interest in health is universal. The demands of swelling populations combined with increased resources and new technology suggest increasingly broad and complex future markets. The efforts of this Corporation are directed toward future as well as current demands, and some examples of activities of importance, both today and tomorrow, are described in a section of this report starting on page nine. Sincerely,

Foster G. McGaw

Foster G. McGaw

6 Chairman of the Board

Harry K. DeWitt

Harry K. DeWitt

President

Directors

FOSTER G. MCGAW
Chairman of the Board, American Hospital Supply Corp.
THOMAS G. MURDOUGH
Vice-Chairman of the Board, American Hospital Supply Corp.
HAROLD H. ANDERSON
President, Publishers Newspaper Syndicate
AUSTIN T. CUSHMAN
Director, Sears, Roebuck & Co.
HARRY K. DE WITT
President, American Hospital Supply Corp.
JAMES J. GRIFFITTS, M.D.
President, Dade Reagents
JOSEPH C. HINSEY, Ph.D.
Medical Educator
CHARLES F. HOUGH
Partner, Spray, Price, Hough & Cushman
A. CALDER MACKAY
Partner, Mackay, McGregor & Bennion
J. ROSCOE MILLER, M.D.
President, Northwestern University
GRAHAM J. MORGAN
President, United States Gypsum Co.
CHRISTIAN G. SCHMIDT
Group Vice-President, American Hospital Supply Corp.
KENNETH V. ZWIENER
Chairman of the Board, Harris Trust and Savings Bank
Honorary Director
EMERY S. BEARDSLEY
Chairman of the Board, Don Baxter, Inc.

Officers

FOSTER G. MCGAW
Chairman of the Board
THOMAS G. MURDOUGH
Vice-Chairman of the Board
HARRY K. DE WITT
President
CHRISTIAN G. SCHMIDT
Group Vice-President
J. WENDELL CRAIN
Group Vice-President
ROBERT M. BAKER
Controller
GEORGE I. BLOMQUIST
Vice-President—Federal
ROBERT K. DI VALL
Treasurer
ROBERT C. KECK
Secretary
ERWIN G. KUCHEL
Vice-President—International
JAMES RUFF
Vice-President
RALPH V. SEAMAN, JR.
Vice-President—Personnel
ROBERT J. FOOTE
Assistant Treasurer
JOHN L. KOONCE
Assistant Treasurer
MISS GLADYS HOLM
Assistant Secretary
JOHN W. HOUGH
Assistant Secretary
JAMES R. HULL
Assistant Secretary
ARTHUR W. JOHNSON
Assistant Secretary

General Counsel
Spray, Price, Hough & Cushman, Chicago
Stock Transfer Agents
Harris Trust and Savings Bank, Chicago
The Chase Manhattan Bank, New York
Registrars of Stock
The Northern Trust Company, Chicago
Irving Trust Company, New York
Stock Listings
New York Stock Exchange
Midwest Stock Exchange

*"Progress is the activity of today,
and the assurance of tomorrow . . ."*

RALPH WALDO EMERSON

The increasing populations and expanding technology of a diminishing globe offer industry neither isolation nor dominance. The activities of business, therefore, must either be attuned to the real needs of today and of tomorrow or be unprofitably short-lived.

To profit in the true sense of the word—to bring benefits to customers, returns to investors and rewarding and satisfying experiences to those at work—modern business efforts must relate to man's needs and hopes, his problems and abilities.

Such are the activities of American Hospital Supply Corporation, a few of which are described in the following pages.

*"Every age has its problems,
by solving which, humanity
is helped forward . . ."*

HEINRICH HEINE

Machines: That Man May Live

For 3,500 persons suffering chronic kidney failure each year the choice is harsh: risky kidney transplants, preservation through use of an artificial kidney machine, or death. Where artificial kidneys are available,



treatment may require two full-day hospital visits a week with yearly costs running as high as \$10,000. Now an artificial kidney machine is available for home use. It can be purchased for about the price of a new car. The patient receives training at a hospital and learns how

to attach the machine to implanted tubing in his arm or leg. Known as the Drake-Willock Mobile Dialysis Unit, the machine is distributed exclusively by American Hospital Supply Corporation, which also manufactures connecting devices and chemicals for the unit.

DIALYSIS: STERLING



*"To preserve a man alive in the midst
of so many chances and hostilities is
as great a miracle as to create him . . ."*

JEREMY TAYLOR

MUST: Hospital Help for the Battlefield
War is destructive rather than creative. Yet, ironically, a number of important medical developments—new surgical techniques and blood transfusion methods among them—have stemmed from wartime experiences. Until recently, some of the life-saving techniques



of advanced medicine were not quickly available to frontline wounded. Now modern field hospitals called MUST—Medical Unit Self-contained, Transportable—are operating in Viet Nam. Fully equipped with laboratories and surgeries, MUST hospitals utilize cabinetry, surgical equipment and furnishings developed

and manufactured by American Hospital Supply Corporation. Commenting on the effectiveness of MUST, the Army's surgeon general reported, "I can say without reservation that the service man is receiving the kind of care I would want given myself or my family."

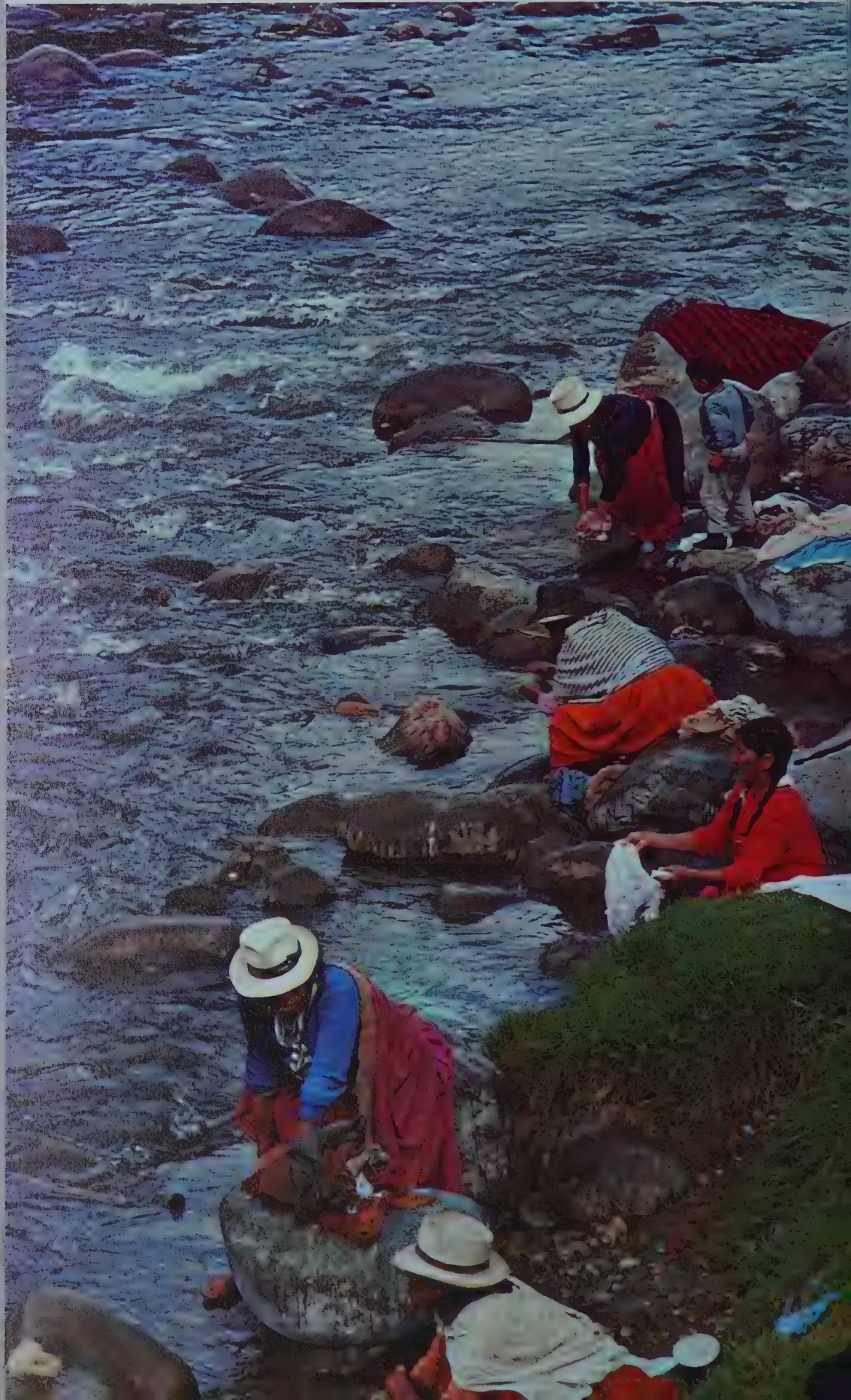
PACKS AWAIT PLATOON: WILLIAMS/EBONY



"The health of the people is really the foundation upon which all their happiness and all their powers as a state depend . . ."

DISRAELI

Developing Markets: Developing Nations
Population in Latin America may increase nearly 35 per cent in the next ten years. How will these soaring numbers fare in an area where health training and care already lag seriously behind need? The question receives priority consideration by Latin governments,



and some of their answers offer great hope. Ecuador, for example, has virtually eradicated smallpox, and its infant mortality rate (deaths of infants under one year per 1,000 births) decreased from 115.7 in 1954 to 89.9 last year. New hospitals are nearing completion in the cities of Quito, Guayaquil,

Cuenca and Riobamba. When finished, they will add more than 1,400 beds to Ecuador's hospital capacity. The four hospitals are being equipped and furnished entirely by American Hospital Supply Corporation, whose engineers and consultants have worked on plans for more than two years.

ECUADOR: HOLTON/PHOTO RESEARCH



*"This is our special duty, that
if anyone specially needs our help,
we should give him such help to
the utmost of our power . . ."*

CICERO

Help Wanted: A Million People for Health

The health services industry ranked as the nation's third largest industry in 1960. By 1970, it may be first. This swift growth of health care has created urgent needs. Some estimates place new health personnel requirements at 10,000 per month for the next 10 years—a total



of 1.2 million. Other estimates say a million people are needed now. Part of American Hospital Supply Corporation's response has been intensified research and development activity for labor-saving products. Another aspect is a broad public service effort to interest high school students in health careers.

Through American's nationwide radio series, "The March of Medicine", and the establishment of a clearing house for career and school information (Health Careers, P.O. Box 427, Evanston, Ill.), thousands of young people are learning about the opportunities and rewards of careers in health.

HOSPITAL EMERGENCY: HARBUTT/MAGNUM

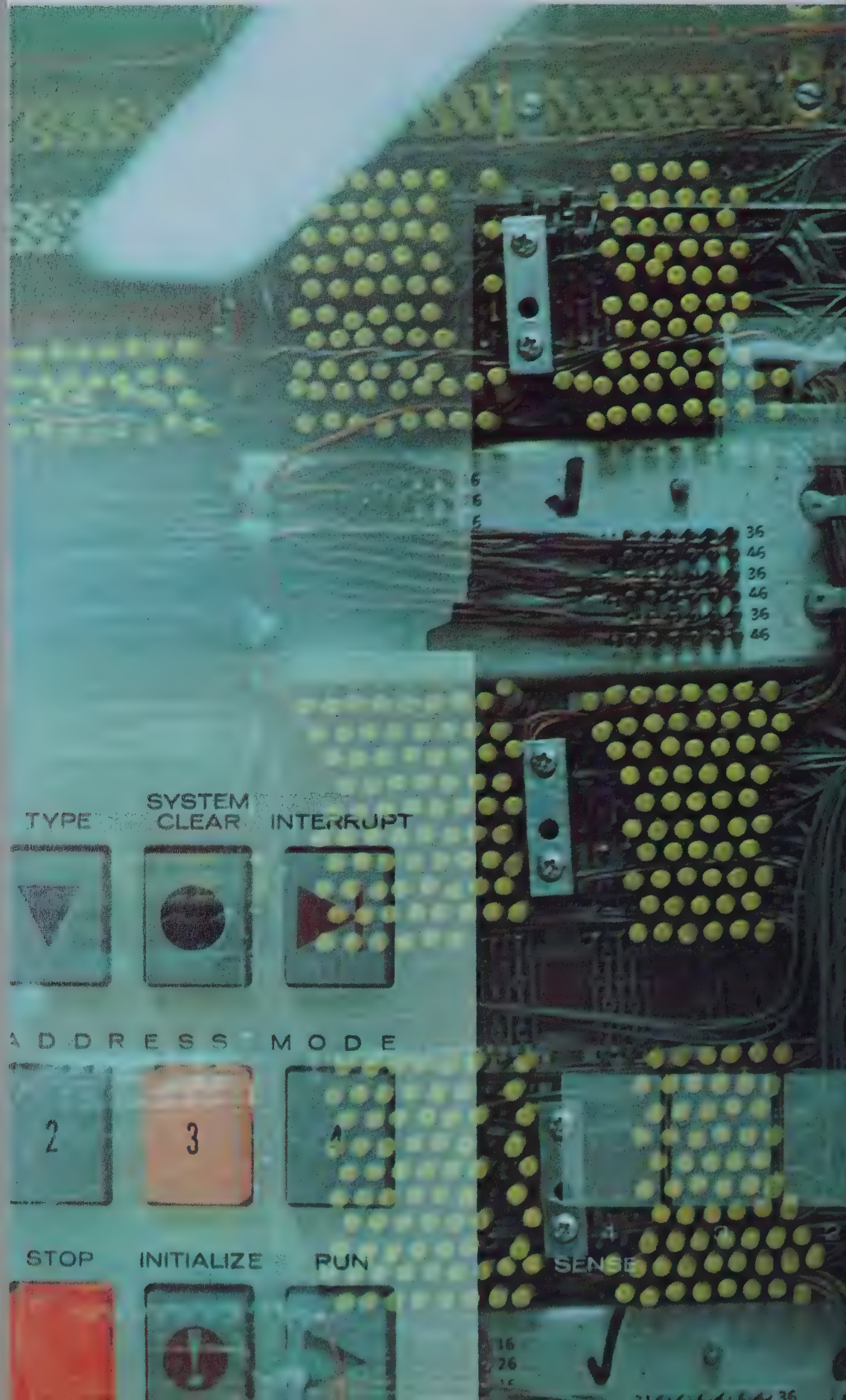


*"The electronic age is literally
one of illumination . . ."*

MARSHALL McLuhan

Management Services: Systems for the 70's

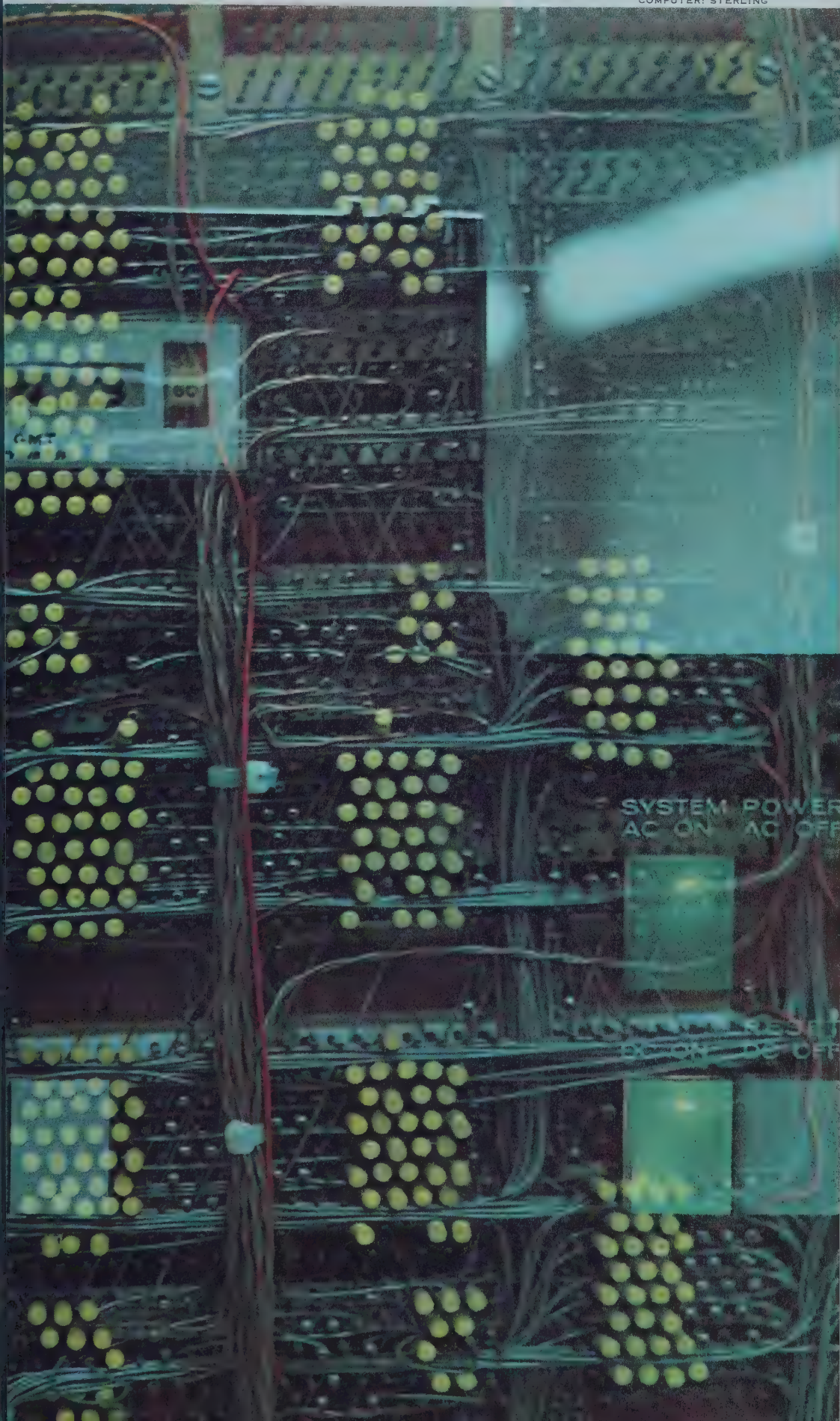
A noted magazine editor recently rated history's most beneficial inventions from the wheel to atomic power. In top position on his list was the computer. Once considered largely in terms of its ability to perform clerical chores, the computer today has



implications for every area of business. At American Hospital Supply Corporation, computer tasks now include "paperless purchasing", in which hospital customers dial directly into data processing equipment. Through a newly created management services department, machines soon will "talk" to each other

via a national computer network to solve problems, plan production, allocate resources and evaluate methods. New equipment will do twice the current computer work load—and do it 100 times faster. The system will rank within the top 5 percent of all U.S. computer installations in sophistication and capabilities.

COMPUTER: STERLING



American Hospital Supply Corporation

Executive Offices:
1740 Ridge Avenue
Evanston, Illinois

U.S. DIVISIONS AND SUBSIDIARIES

Acme Metal Products, Inc.
Chicago

American Hospital Credit Corporation
Evanston

American Hospital Supply Division, AHSC
General Offices: Evanston
Sales and Distribution Centers:
Atlanta, Boston, Charlotte, Columbus,
Dallas, Detroit, Evanston, Kansas City,
Los Angeles, Miami, Minneapolis, New
Orleans, New York, San Francisco,
Seattle, Washington, D.C.

Arnar-Stone Laboratories, Inc.
Mount Prospect, Ill.

Bruck's, Inc.
New York City
Bruck Uniform Company, Inc.
General Offices: New York
Regional Offices: Boston, Buffalo,
Chicago, Cleveland, Detroit,
Los Angeles, Philadelphia, Pittsburgh
Retail Stores: Boston, Buffalo, Chicago,
Cincinnati, Cleveland, Detroit,
New York, Philadelphia, Pittsburgh,
Rochester, N.Y.
Collegiate Outfitting Company, Inc.
New York

Burma Latex Products Division, AHSC
Talmadge, Ohio

Campbell Laboratories, Inc.
Evanston

Convertors Incorporated
Newark, N.J.

Dade Reagents, Inc.
Miami, Fla.

Don Baxter, Inc.
Glendale, Calif.

Edwards Laboratories, Inc.
General Offices: Santa Ana, Calif.
Research Center: Portland, Ore.

Hartman-Leddon Company, Inc. (Harleco)
General Offices: Philadelphia, Pa.
Manufacturing: Philadelphia,
Conshohocken, Pa., La Habra, Calif.

Institutional Industries, Inc.
Cincinnati, Ohio
American Wheel Chair Division
Cincinnati, Ohio

Massillon Rubber Company
Massillon, Ohio

McGaw Laboratories, Inc.
Milledgeville, Ga.

McGaw Products Division, AHSC
General Offices: Evanston
Sales and Distribution Centers:
Atlanta, Boston, Columbus, Dallas,
Kansas City, Miami, Minneapolis,
New York, Skokie, Ill., Washington, D.C.

Midwest American Dental Division, AHSC
Melrose Park, Ill.

Pharmaseal Laboratories
General Offices: Glendale, Calif.
Regional Offices: Glendale, Philadelphia
Manufacturing: Irwindale, Calif.;
Johnson City, Tenn.

Scientific Products Division, AHSC

General Offices: Evanston
Sales and Distribution Centers:
Atlanta, Boston, Charlotte, Chicago,
Columbus, Dallas, Detroit, Kansas City,
Los Angeles, Miami, Minneapolis, New
Orleans, New York, San Francisco,
Seattle, St. Louis, Washington, D.C.
Tekpro Division
Skokie, Ill.

V. Mueller & Company
General Offices: Niles, Ill.
Regional Offices:
Atlanta, Niles, Dallas, Houston, Los
Angeles, Rochester, Minn., Newark
V. Mueller Surgical Products, Inc.
Chicago

CANADIAN

**American Hospital Supply Corporation
(Canada) Limited**
Toronto, Canada
American Hospital Supply Division
General Offices: Toronto
Regional Offices: Montreal, Toronto,
Edmonton, Vancouver, Winnipeg
**Canadian Laboratory Supplies Limited
(Canlab)**
General Offices: Toronto
Regional Offices: Montreal, Ottawa,
Edmonton, Toronto, Vancouver,
Winnipeg

Texpack Limited
General Offices: Brantford, Ont.
Sales Office: Toronto
Farm Products Division: Brantford

INTERNATIONAL

**American Hospital Supply Export
Corporation (AHSECO)**
Evanston

**American Hospital Supply Corporation
del Ecuador, S.A.**
Quito

**American Hospital Supply Corporation
de Mexico, S.A. de C.V.**
Mexico City

**American Hospital Supply Corporation
de Panama, S.A.**
Panama City

**American Hospital Supply Corporation,
Peru**
Lima

**American Hospital Supply Corporation
de Puerto Rico, S.A.**
San Juan

**American Hospital Supply Corporation
de Venezuela, C.A.**
Caracas

Dade de Mexico, S.A.
Mexico City

Hoffmann-Pinther & Bosworth, S.A.
Mexico City

International Operations Division, AHSC
Evanston

Miami Export Division, AHSC
Miami

Med-Lab, S.A.
Panama City

There are other small subsidiary corporations
of which AHSC is whole or partial owner.

Treasurer's Comment:

Financial statements often look more complex than they really are. For some readers of this report—particularly young or new stockholders who may not be familiar with annual reports—additional comment on the important figures on the following pages may make them more understandable and useful.

Earnings and Investment: (Page 23) The “Consolidated Earnings” statement reflects the operating results of the Corporation for the years 1966 and 1965. The sales figure indicates the volume of goods sold and reflects unit prices as well. A figure labeled “other income” shows income from sources other than selling operations and, in this report, primarily is from royalty arrangements with licensees. Net earnings have been stated on a per share basis because of stockholders’ interest in the figure as an evaluator of market price. The “Stockholders’ Investment” statement shows changes in net worth as they pertain to acquisitions, stock options and earnings retained in the business. “Poolings of Interest” reflect prior year’s stockholders’ investment (or net worth) of acquisitions made during 1966.

Consolidated Balance Sheet: (Pages 24 and 25) The statements in the balance sheet simply show what the Corporation owns, how much it owes and stockholders’ investment as of December 31. Items are categorized into what accountants generally agree are significant number groups. “Current Assets” shows items which can be converted into cash within one year, while “Current Liabilities” generally represents what must be paid within one year. “Prepaid Expenses” are items paid ahead of time and expensed for accounting purposes in the applicable period. “Property, Plant and Equipment” identifies the total cost of land, machinery equipment, etc., owned and includes

purchases made during the year reported. “Accumulated Depreciation” is the aggregate wear-and-tear expense charged since the purchase of properties listed. Except for land, costs of this kind are charged to expenses. “Intangibles” include such items as patents—which are amortized or “written off” over 17 years—and good will. (Good will is that amount paid for a company in excess of its net worth.)

Source and Use of Funds: (Page 26) This page describes where all cash came from during the year, and how it was spent. The major source is earnings, or the difference between the income from sales and selling and operating expenses plus taxes. Some of those expenses, however, did not require cash. For example, depreciation on purchased items already paid for requires no additional cash outlay. “Notes to the Consolidated Statements” (Page 27) give additional descriptions and comment.

All of the information to this point has been concerned with 1966, and in some instances, it has been compared with the prior year. On the final page, a “10-Year Financial Comparison” has been provided so that long-term progress and trends can be judged. For purposes of meaningful comparison, information on acquisitions treated as poolings of interest are included for all years shown.

We have reported information in these statements in excess of minimum disclosure requirements of the stock exchanges and the Securities and Exchange Commission. Our hope is that this more complete disclosure will be helpful to our stockholders as they evaluate their investment. Questions or comments would be most welcome.

Robert K. DiVall, *Treasurer*

Consolidated Earnings and Stockholders' Investment American Hospital Supply Corporation

and Subsidiaries

Earnings	Year ended December 31	
	1966	1965
Net sales	\$230,711,935	\$201,071,444
Cost of products sold	153,045,806	134,976,988
	\$ 77,666,129	\$ 66,094,456
Selling, shipping, warehousing and administrative expenses	54,024,998	46,516,041
	\$ 23,641,131	\$ 19,578,415
Other income, principally royalties and interest	1,604,915	1,218,090
Interest expense	(891,452)	(602,955)
Earnings before federal income taxes	\$ 24,354,594	\$ 20,193,550
Federal income taxes	11,875,000	9,555,000
Net earnings	\$ 12,479,594	\$ 10,638,550
Net earnings per share	\$1.34	\$1.14

Stockholders' Investment year ended Dec. 31, 1966	Common stock		
	Shares	Amount	Retained earnings
BALANCE, January 1, 1966, as previously reported	9,018,352	\$29,443,871	\$45,270,167
ADJUSTMENTS FOR:			
Consolidation of American Hospital Credit Corp.			237,468
Poolings of interests	276,552	109,883	1,187,732
BALANCE, January 1, 1966, restated	9,294,904	\$29,553,754	\$46,695,367
ADD (DEDUCT):			
Net earnings for the year			12,479,594
Cash dividends paid:			
American—\$.425 per share			(3,928,115)
Pooled company prior to pooling			(37,099)
Exercise of stock options	2,190	54,515	
Stock issuance expenses		(20,225)	
BALANCE, December 31, 1966	9,297,094	\$29,588,044	\$55,209,747

Charges for depreciation of plant and equipment included in costs and expenses amounted to \$2,370,482 in 1966 and \$2,219,206 in 1965.

See notes to consolidated financial statements.

Consolidated Balance Sheets
American Hospital Supply Corporation
and Subsidiaries

	December 31	
	1966	1965
Current Assets:		
Cash	\$ 1,407,437	\$ 4,683,912
Marketable securities	2,282,298	547,593
Receivables, less allowances: \$1,040,069 (1966), \$755,130 (1965)	49,048,190	42,709,155
Inventories—Note B	44,371,632	38,118,781
Prepaid expenses	1,047,543	994,374
<i>Total Current Assets</i>	<i>\$ 98,157,100</i>	<i>\$ 87,053,815</i>
<hr/>		
Other Assets, principally receivables due after one year	\$ 3,808,064	\$ 3,214,668
<hr/>		
Property, Plant and Equipment, at cost:		
Land	\$ 3,133,221	\$ 2,634,401
Buildings	17,935,223	16,212,463
Machinery and equipment	13,190,952	10,335,108
Furniture and fixtures	3,758,123	3,388,173
	\$ 38,017,519	\$ 32,570,145
Less accumulated depreciation	13,024,383	11,201,833
	\$ 24,993,136	\$ 21,368,312
Intangibles, at cost less amortization	481,958	544,817
	\$127,440,258	\$112,181,612

	December 31	
	1966	1965
Current Liabilities:		
Notes payable to banks	\$ 847,369	\$ 9,249,588
Current maturities on long-term debt	419,200	391,200
Accounts payable	13,053,524	12,766,939
Commissions, salaries and withholdings	2,066,577	1,940,976
Retirement and profit-sharing plans	1,466,031	1,544,918
Taxes, other than federal income taxes	1,080,611	986,027
Federal income taxes	6,174,655	6,094,543
<i>Total Current Liabilities</i>	<i>\$ 25,107,967</i>	<i>\$ 32,974,191</i>
Long-Term Debt, less current maturities:		
5% Notes payable to financial institutions, due in annual installments of \$800,000 from 1972 through 1985 and balance of \$3,800,000 in 1986	\$ 15,000,000	—
Real estate mortgage and other notes	2,534,500	2,958,300
	<i>\$ 17,534,500</i>	<i>\$ 2,958,300</i>
Stockholders' Investment:		
Common stock—Note C:		
No par value, authorized 20,000,000 shares, issued and outstanding 9,297,094 shares at December 31, 1966, stated at	\$ 29,588,044	\$ 29,553,754
Retained earnings (\$15,697,000 unrestricted for the payment of cash dividends at December 31, 1966)	55,209,747	46,695,367
	<i>\$ 84,797,791</i>	<i>\$ 76,249,121</i>
	<i>\$127,440,258</i>	<i>\$112,181,612</i>

Consolidated Source and Use of Funds
American Hospital Supply Corporation
and Subsidiaries

Year ended December 31, 1966

Source of Funds:

Operations:

Net earnings	\$12,479,594
Depreciation, which did not require use of funds	2,370,482
<i>Total from operations</i>	<i>\$14,850,076</i>
Issuance of 5% notes	15,000,000
Exercise of stock options	54,515
Decrease in cash and marketable securities	1,541,770
Miscellaneous—net	497,460
	\$31,943,821

Use of Funds:

Reduction in notes payable to banks	\$ 8,402,219
Increase in inventories	6,252,851
Increase in accounts receivable	6,932,431
Additions to property, plant and equipment	\$6,929,851
Less disposals	934,545
	5,995,306
Dividends to stockholders	3,965,214
Payments on long-term debt	395,800
	\$31,943,821

Notes to Consolidated Financial Statements

year ended December 31, 1966

A. Principles of Consolidation:

Effective January 1, 1966, the Company changed its accounting practice to include in its consolidated financial statements the accounts of American Hospital Credit Corporation. With this change, the Company now consolidates all subsidiaries. The consolidated financial statements for the year ended December 31, 1965, have been restated for comparative purposes to conform to the change in accounting practice. The effect on net income is not significant in either year.

During 1966, the Company issued 275,786 shares of its previously unissued common stock in exchange for all of the outstanding common stock of Edwards Laboratories, Inc. and all of the outstanding common stock of Burma Latex Products Co., Inc. These transactions have been treated as poolings of interests in the accompanying financial statements, and the figures for the prior year have been restated to give effect to these transactions.

B. Inventories:

Inventories are valued at the lower of cost (first-in, first-out method) or market at December 31, 1966 and include \$35,785,275 finished merchandise, \$2,533,848 work in process, and \$6,052,509 raw materials.

C. Stock Options:

Under the terms of the Company's stock option plans, options may be granted to officers and key employees of the Company or its subsidiaries. Options granted under the plans are at prices equal to 100% of the market price of the Company's shares at date of grant, are exercisable in five or ten equal annual installments, and expire from five to ten years after the date of grant.

Changes during 1966 under the plans were as follows:

	Shares		
	Reserved	Granted	Available
Balance, January 1, 1966	321,480	49,780	271,700
Granted		9,200	(9,200)
Exercised at an aggregate price of \$54,515	(2,190)	(2,190)	
Cancelled	(210)	(4,210)	4,000
Balance, December 31, 1966	<u>319,080</u>	<u>52,580</u>	<u>266,500</u>
Option price		<u>\$20.00-\$45.50</u>	
Exercisable at December 31, 1966		<u>12,160</u>	

D. Pension Plan:

The Company's pension costs of \$870,258 in 1966 and \$997,242 in 1965 have been accrued in accordance with generally accepted accounting principles.

Report of Independent Accountants

To the Stockholders and
Board of Directors
American Hospital Supply Corporation
Evanston, Illinois

We have examined the accompanying consolidated balance sheet of American Hospital Supply Corporation and subsidiaries as of December 31, 1966, the related statements of consolidated earnings and stockholders' investment and the statement of consolidated source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting

records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of American Hospital Supply Corporation and subsidiaries at December 31, 1966, the results of their operations and the source and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Ross, Bailey & Smart
February 2, 1967

Ten Year Financial Comparison

(\$ and Shares in Thousands)

	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957
Net Sales	\$230,712	\$201,071	\$178,686	\$161,722	\$148,423	\$126,462	\$112,152	\$96,249	\$81,302	\$72,033
Earnings before Federal Income Taxes	24,355	20,194	16,809	13,977	13,780	12,672	10,846	9,262	7,332	6,537
% of Net Sales	10.6	10.0	9.4	8.6	9.3	10.0	9.7	9.6	9.0	9.1
Net Earnings	12,480	10,639	8,752	7,219	6,734	6,148	5,300	4,713	3,654	3,222
% of Net Sales	5.4	5.3	4.9	4.5	4.5	4.9	4.7	4.9	4.5	4.5
Net Earnings per Share*	1.34	1.14	0.94	0.78	0.74	0.70	0.62	0.60	0.47	0.43
Provision for Depreciation	2,370	2,219	1,956	1,727	1,418	1,121	936	811	611	512
Stockholders' Investment Amount	84,798	76,249	68,746	62,175	57,515	43,451	38,868	26,797	22,830	19,707
Stockholders' Investment per Share*	9.12	8.20	7.42	6.74	6.35	4.95	4.57	3.41	2.96	2.64
Dividends Paid: Amount	3,965	3,502	2,917	2,706	2,358	2,069	1,833	1,568	1,313	1,078
Dividends Paid: Per Share*	0.42½	0.36¼	0.31¼	0.28¾	0.25	0.24⅙	0.21⅔	0.21¼	0.18⅓	0.16
Working Capital	73,049	54,080	51,627	47,234	44,293	33,530	30,016	19,538	18,397	16,348
Outstanding Shares	9,297	9,295	9,270	9,219	9,206	8,775	8,505	7,853	7,708	7,457

* All per share computations are adjusted for stock splits.
Used average shares of 9,055,718 for 1962.

